



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

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July 11, 2006

**TO:** Representative Jim McIntire, Chair  
Senator Joseph Zarelli  
Senator Mark Doumit  
Representative Ed Orcutt  
Victor Moore, OFM, Director  
Cindi Holmstrom, DOR, Director

**FROM:** ChangMook Sohn, Executive Director  
Economic and Revenue Forecast Council

**SUBJECT:** July 10, 2006 REVENUE COLLECTION REPORT

The slowdown in revenue growth anticipated in the June 2006 forecast has yet to occur. General Fund-State (GFS) collections totaled \$1,290.9 million in the June 11–July 10, 2006 collection period. Tax payments were much higher than expected despite a significant upward revision to the forecast in June. Collections were \$84.7 million, 7.0 percent above the June forecast for the month. Revenue Act taxes (sales, business and occupation, use, and public utility) exceeded the estimate by \$71.3 million (9.2 percent) and real estate excise tax payments were \$13.7 million (17.9 percent) higher than expected.

Recent economic news has been positive but not nearly as good as this month's revenue numbers imply. The U.S. unemployment rate in June remained at 4.6 percent, the lowest unemployment rate in nearly five years, despite a weaker than expected increase in employment. The U.S. economy added 121,000 jobs in June, up from an upward revised 92,000 gain in May. While the June job gain was an improvement from April and May, it was weaker than expected and weaker than needed to keep pace with population growth. At the state level, the job picture is mixed. Washington wage and salary employment continues to grow, although at a slower pace than earlier in the year. Washington added 1,800 jobs in May, up from 1,300 in April, but far less than the 4,200 average in the January-March period. In addition, the state's unemployment rate shot up to 5.1 percent in May from 4.7 percent in April. The May unemployment rate was the highest since last December. Other indicators at the national level were mixed. The Conference Board reported that its Index of Consumer Confidence, which had declined in May, rebounded a little in June. However, the Conference Board also reported that the U.S. Index of Leading Indicators decreased 0.6 percent in May. The decline in May is the third in the last six months.

Revenue Act collections were \$71.3 million higher than expected this month. Payments included a large and unexpected audit payment (\$4.2 million); however, the majority of the variance reflects much stronger than expected consumer and business spending. Tax payments this period primarily reflect May 2006 activity of monthly taxpayers. Revenue Act receipts have been very strong for more than a year. Collections increased 12.0 percent in the third quarter of 2005, 9.4 percent in the fourth quarter of 2005 and 12.0 percent in the first quarter of 2006. Growth slowed considerably in April 2006 (7.1 percent) and the June forecast expected growth to continue to slow for the remainder of year. However, the growth of tax payments accelerated sharply this month. Revenue Act receipts (excluding special factors) were 15.5 percent above the ago level. This is more than double last month's increase and is the strongest monthly gain since the early 1990's. It is also much stronger than the economic fundamentals indicate.

Preliminary information on tax payments by industry for the current period shows strong growth in nearly all sectors of the economy. Tax payments by firms in the retail trade and food services sector increased 12.3 percent. Last month retailers reported a 9.6 percent increase. Nine of the twelve major retailing categories reported double-digit increases this month. The sectors with the strongest growth were gas stations and convenience stores (+21.8 percent), electronic and appliance stores (+19.3 percent) and non-store retailers (+17.8 percent). Auto dealers, the largest retailing sector, reported a 9.2 percent increase; last month this sector was up 4.9 percent. Overall, tax payments of firms in non-retail trade and food services sectors were also up 12.3 percent for the month. Last month tax payments from the non-retail trade sector increased 3.7 percent. While most non-retail sectors were strong, there was significant difference among sectors. Construction remained very strong, with tax payments 24.3 percent higher than a year-ago. Last month this sector reported a 16.2 percent increase. Tax payments from the utility sector increased 15.7 percent. Other non-retail sectors with double-digit increases include finance and insurance (+17.6 percent), the wholesaling trade sector (12.7 percent) and transportation and warehousing (+12.3 percent). The strength of real estate activity on overall revenue growth is again evident this month. Tax payments of firms in construction and housing related sectors increased and amazing 18.9 percent compared to a still very strong 10.5 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$14.1 million above the estimate for the month. Real estate excise tax payments were again strong and were \$13.7 million higher than expected. Real estate excise collections this month include an unusually large and unexpected (\$5.8 million) payment from a corporate transfer. Cigarette (+\$350,000), property (+\$572,000) and "other" (+\$460,000) tax payments were also above the estimate for the month.

Real estate excise activity accelerated in the most recent month despite rising mortgage rates and inventories of unsold homes. Taxable real estate activity in the most recent month (closings in May 2006 which reflect tax payments to the state in June 2006) were 15.6 percent above the year-ago month. In the prior month activity was 0.6 percent below the year-ago level. Higher prices continue to trump a lower number of transactions. For the current month, the number of transactions were 3.0 percent lower than a year-ago (the sixth consecutive monthly decline), however, the average value per transaction increased 19.1 percent in the current month. Last month the average value per transaction increased 11.1 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$740,000 below the estimate for the month.

The attached Table 1 provides a comparison of collections with the June 2006 forecast for the June 11, 2006 – July 10, 2006 collection period. The variance for the month is virtually the same as the cumulative variance in Table 1 because the monthly estimates based on the June forecast have been adjusted to reflect actual collections through June 10, 2006. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

**TABLE 1**  
**Revenue Collection Report**  
**July 10, 2006 Collections Compared to the June 2006 Forecast**  
**Thousands of Dollars**

| <u>Period/Source</u>  | <u>Estimate*</u>   | <u>Actual</u>      | <u>Difference</u> |                |
|---|--------------------|--------------------|-------------------|----------------|
|   |                    |                    | <u>Amount</u>     | <u>Percent</u> |
| <b>June 11 - July 10, 2006</b>  |                    |                    |                   |                |
| Department of Revenue-Total   | \$1,200,008        | \$1,285,442        | \$85,435          | 7.1%           |
| Revenue Act** (1)   | 776,605            | 847,893            | 71,287            | 9.2%           |
| Non-Revenue Act(2)  | 423,403            | 437,550            | 14,147            | 3.3%           |
| Liquor Sales/Liter  | 12,978             | 12,036             | (942)             | -7.3%          |
| Cigarette   | 4,905              | 5,256              | 350               | 7.1%           |
| Property (State School Levy)  | 301,726            | 302,297            | 572               | 0.2%           |
| Estate  | 48                 | 44                 | (3)               | NC             |
| Real Estate Excise  | 76,531             | 90,242             | 13,710            | 17.9%          |
| Timber (state share)  | 0                  | 0                  | 0                 | NA             |
| Other   | 27,215             | 27,675             | 460               | 1.7%           |
| Department of Licensing (2)   | 6,187              | 5,447              | (740)             | -12.0%         |
| Lottery (5)   | 0                  | 0                  | 0                 | NA             |
| <b>Total General Fund-State***</b>  | <b>\$1,206,195</b> | <b>\$1,290,890</b> | <b>\$84,695</b>   | <b>7.0%</b>    |
| <b>Cumulative Variance Since the June 2006 Forecast (June 11, 2006 - July 10, 2006)</b> |                    |                    |                   |                |
| Department of Revenue-Total   | \$1,200,008        | 1,285,442          | 85,434            | 7.1%           |
| Revenue Act** (3)   | 776,605            | 847,892            | 71,287            | 9.2%           |
| Non-Revenue Act(4)  | 423,403            | 437,550            | 14,147            | 3.3%           |
| Liquor Sales/Liter  | 12,978             | 12,036             | (942)             | -7.3%          |
| Cigarette   | 4,905              | 5,256              | 350               | 7.1%           |
| Property (State School Levy)  | 301,726            | 302,297            | 572               | 0.2%           |
| Estate  | 48                 | 54                 | 7                 | NA             |
| Real Estate Excise  | 76,531             | 90,242             | 13,710            | 17.9%          |
| Timber (state share)  | 0                  | (0)                | (0.0)             | NA             |
| Other   | 27,215             | 27,665             | 450               | 1.7%           |
| Department of Licensing (4)   | 6,187              | 5,402              | (785)             | -12.7%         |
| Lottery (5)   | 0                  | 0                  | 0                 | NA             |
| <b>Total General Fund-State***</b>  | <b>\$1,206,195</b> | <b>\$1,290,844</b> | <b>\$84,649</b>   | <b>7.0%</b>    |

1 Collections June 11 - July 10, 2006. Collections primarily reflect May 2006 activity of monthly taxpayers.

2 June 2006 collections.

3 Cumulative collections, estimates and variance since the June 2006 forecast; (June 11 - July 10, 2006) and revisions to history.

4 Cumulative collections, estimates and variance since the June 2006 forecast; (June 2006) and revisions to history.

5 Lottery transfers to the General Fund

\* Based on the June 2006 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

**TABLE 2**  
**June 10, 2006 Collection Report - Revised Data**  
**Thousands of Dollars**

| <u>Period/Source</u>             | <u>Collections</u> |                | <u>Difference</u> |                |
|----------------------------------|--------------------|----------------|-------------------|----------------|
|                                  | <u>Preliminary</u> | <u>Revised</u> | <u>Amount</u>     | <u>Percent</u> |
| <b>May 11 - June 10, 2006</b>    |                    |                |                   |                |
| Department of Revenue-Total      | \$1,345,248        | \$1,347,210    | \$1,962           | 0.1%           |
| Revenue Act (1)                  | 788,761            | 788,761        | 0                 | 0.0%           |
| Non-Revenue Act(2)               | 556,486            | 558,449        | 1,963             | 0.4%           |
| Liquor Sales/Liter               | 10,666             | 10,666         | (0)               | -0.0%          |
| Cigarette                        | 4,385              | 4,385          | 0                 | 0.0%           |
| Property (State School Levy)-net | 441,648            | 441,648        | 0                 | 0.0%           |
| Estate                           | (542)              | (542)          | 0                 | -0.1%          |
| Real Estate Excise               | 74,090             | 74,090         | 0                 | 0.0%           |
| Timber (state share)             | 1,962              | 1,962          | 0                 | NA             |
| Other                            | 24,276             | 26,239         | 1,963             | 8.1%           |
| Department of Licensing (2)      | 4,401              | 4,355          | (46)              | -1.0%          |
| Lottery (2)                      | 0                  | 0              | 0                 | NA             |
| Total General Fund-State***      | 1,349,648          | 1,351,565      | \$1,917           | 0.1%           |

**Cumulative Receipts: Feb. 11 - June 10, 2006 & Revisions to History**

|   |                    |                    |                |             |
|---|--------------------|--------------------|----------------|-------------|
| Department of Revenue-Total                     | \$4,048,558        | \$4,050,502        | \$1,944        | 0.0%        |
| Revenue Act (3)                                 | 3,194,309          | 3,194,299          | (10)           | -0.0%       |
| Non-Revenue Act(4)                              | 854,250            | 856,203            | 1,953          | 0.2%        |
| Liquor Sales/Liter                              | 42,816             | 42,816             | (0)            | -0.0%       |
| Cigarette                                       | 15,917             | 15,909             | (8)            | -0.0%       |
| Property (State School Levy)-net after transfer | 464,236            | 464,235            | (1)            | -0.0%       |
| Estate  | (742)              | (742)              | (0)            | 0.0%        |
| Real Estate Excise                              | 272,980            | 273,008            | 28             | 0.0%        |
| Timber (state share)                            | 4,211              | 4,211              | 0              | NA          |
| Other   | 54,832             | 56,766             | 1,934          | 3.5%        |
| Department of Licensing (4)                     | 8,988              | 8,997              | 9              | 0.1%        |
| Lottery (4)                                     | 0                  | 0                  | 0              | NA          |
| <b>Total General Fund-State***</b>              | <b>\$4,057,546</b> | <b>\$4,059,499</b> | <b>\$1,953</b> | <b>0.0%</b> |

Preliminary. Reported in the June 10, 2006 collection report.

1 Collections May 11 - June 10, 2006. Collections primarily reflect April 2006 business activity of monthly taxpayers.

2 May 1-31, 2006 collections.

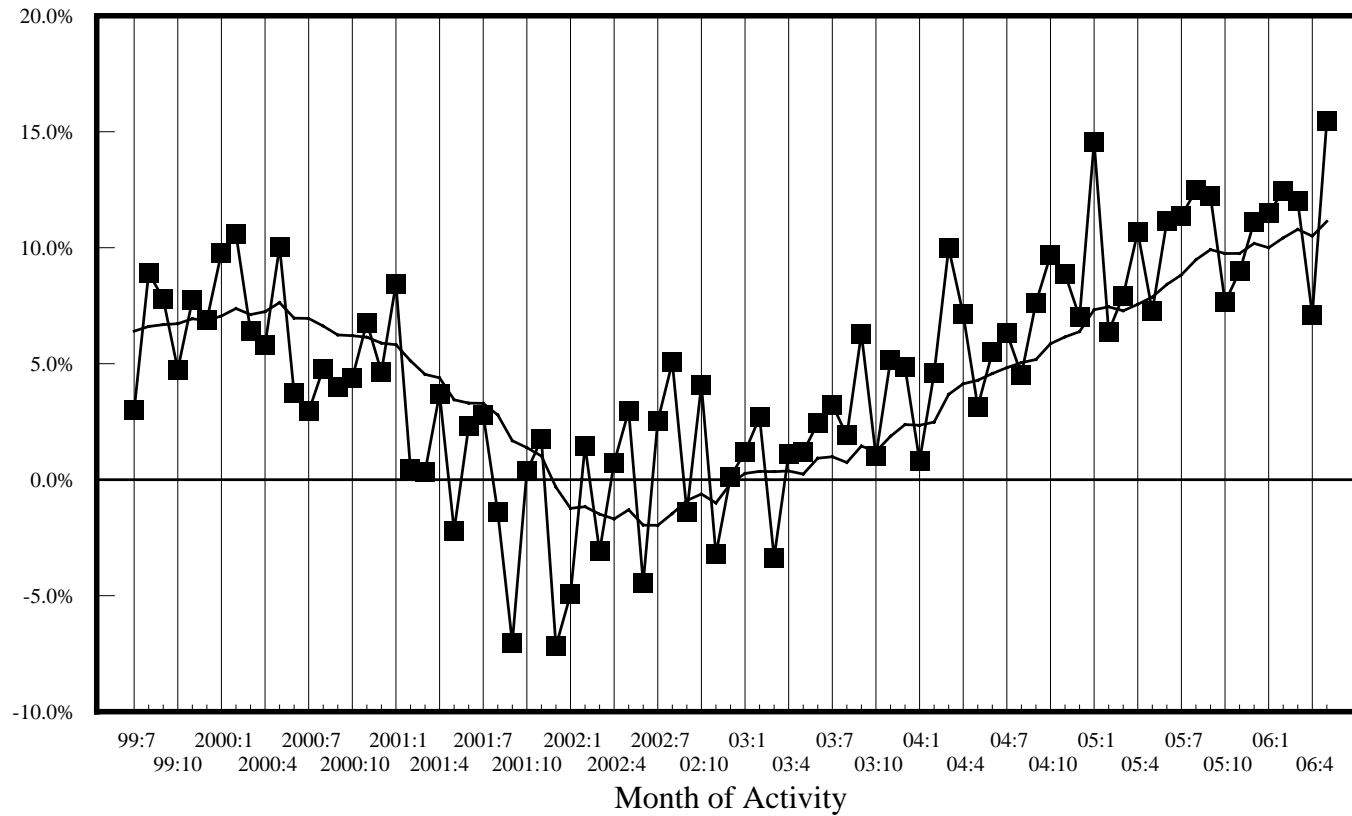
3 Cumulative receipts since the Feb. 2006 forecast: Feb 11-June 10,2006 & revisions to history.

4 Cumulative receipts since the Feb. 2006 forecast ( Feb. 2006 - May 2006) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

# Revenue Act Net Collections\*

Year-over-Year Percent Change



■ %CH from year-ago month

— Ave. Growth (twelve month moving average)

\*adjusted for new legislation and special factors